

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DOD HOTLINE ALLEGATIONS ON THE
DEFENSE LOGISTICS AGENCY DATA, REVIEW,
ANALYSIS, MONITORING AID**

Report No. 97-041

December 10, 1996

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Department of Defense

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Acronyms

DLA Defense Logistics Agency



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DEPARTMENT OF DEFENSE
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Report No. 97-041

December 10, 1996

MEMORANDUM FOR UNDER SECRETARY FOR ACQUISITION AND
TECHNOLOGY
DEPUTY UNDER SECRETARY OF DEFENSE
(LOGISTICS)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
COMMANDER, JOINT LOGISTICS SYSTEMS CENTER

SUBJECT: Audit Report on DoD Hotline Allegations on the Defense Logistics Agency Data, Review, Analysis, Monitoring Aid (Project No. 6CA-8018)

Introduction

We are providing this report for your information and use. The audit was performed in response to allegations made to the DoD Hotline. In 1988 the Defense Logistics Agency (DLA) began developing the Data, Review, Analysis, Monitoring Aid (the project) to improve their ability to forecast the number and types of parts needed to support weapon systems. Between 1989 and 1996 DLA spent \$3.7 million developing the project. A DoD Hotline complainant alleged that DLA:

- o mismanaged the project,
- o did not meet the project objectives,
- o improperly competed the contracts for project development, and
- o inappropriately used funds.

The complaint further alleged that the project duplicates current or future information technology efforts.

Audit Results

The project was a failure. Over eight years of development, DLA expended a total of \$3.7 million on the project (\$1.9 million on the proof-of-concept and

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\$1.8 million on the prototype). The prototype did not meet the project objectives of improving requirements forecasting for weapon systems. We were unable to substantiate that DLA improperly used funds for the project. We were also unable to substantiate claims that the project duplicates current or future information technology efforts. In July 1996 DLA management discontinued the funding and development of the project because of its limited functionality and other higher priority DLA requirements. DLA has reprogrammed project funds to expand the technology within the Weapon System Support Program to take advantage of the technology already developed.

Audit Objectives

The audit objectives were to determine whether DLA properly managed the project and met its project objectives, whether DLA competed the contracts for the project, whether funds were appropriately used, and whether the project duplicated other current or future information technology efforts. We also evaluated the management control program as it related to the audit objectives.

Scope and Methodology

Audit Scope. We discussed the requirements developed for the project, the objectives of the project, and its current status with defense supply centers and DLA headquarters. We interviewed personnel responsible for monitoring contractors' performance. We discussed incorporation of the project's technology into other systems being developed, and whether the project functions were being duplicated by current or future systems being developed by the Joint Logistics Systems Center. We also discussed the extent to which personnel from the Office of the Secretary of Defense, the Army, Navy, and Air Force were involved during development of the project.

Limitations to Audit Scope. The scope of the audit was limited to reviewing the project and the hotline allegations. We did not perform a review of the Provisioning and Cataloging Technical Support System or the Weapon System Support Program to determine whether they would satisfy the intent of the project, which was improvement in the accuracy of requirements forecasting at DLA. The provisioning and cataloging system is a DoD-wide system for standardizing weapon system support information that the Joint Logistics Systems Center was developing as part of the DoD Materiel Management System.¹ The Weapon System Support Program is a program for DLA to standardize the weapon system data bases at the six DLA inventory control

¹The Materiel Management System is a DoD effort to standardize information systems.

points. Both include or have plans to include some functions similar to the functions of the project. However, the future of the provisioning and cataloging system is currently uncertain due to DoD FY 1997 budget decisions.

Methodology Used. We reviewed the Information Sciences Institute and Management Technology (ManTech) contract files to identify procurement procedures for awarding the contracts for the project, and to compare statements of work to the proof of concept and prototype delivered. We reviewed monthly status reports submitted by the contractor. In addition, we reviewed resumes of prime and subcontractor personnel on the ManTech contract. Our review did not identify any former DLA employees. We observed a demonstration of the prototype developed by ManTech. We also reviewed funding documents for the project and reviewed the management control program for the project.

Audit Period, Standards, and Locations. This program audit was performed from June through September 1996 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Documents reviewed were dated from July 1986 through September 1996. We did not use computer processed data or statistical sampling for this audit. We visited or contacted individuals and organizations within the DoD, the Information Sciences Institute, and ManTech.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987,² requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of management controls over the project. Specifically, we reviewed management controls pertaining to project oversight, project objectives, and contract competition. We did not assess the adequacy of management's self-evaluation of those controls.

Adequacy of Management Controls. DLA management controls pertaining to project oversight, project objectives, and contract competition were not adequate. The project is considered a part of Supply Management which is under the Materiel Management assessable unit. We were unable to assess the adequacy of the management control program for the project because the

²DoD Directive 5010.38 has been revised as "Management Control Program," August 26, 1996. The audit was performed under the April 1987 version of the directive.

management control plan had not been updated annually. We did not consider management control weaknesses related to the project to be material, because the project cost was not significant.

Prior Audits and Other Reviews

The Office of the Inspector General, DoD, issued two reports which showed that DLA is incurring significant expenditures for items with little or no demand. Enclosure 1 discusses the two prior audit reports.

Audit Background

The Need for the Project. Over the past two decades, DLA has assumed more than 70 percent of the responsibility for managing non-repairable, expendable, and commodity items previously managed by the Services. In order to effectively and efficiently provide these items, DLA must have early access to weapon system requirements forecasts that impact the DLA mission. DLA has encountered problems in obtaining the results of the Services' weapon systems requirements forecasts and changes made during the development of weapon systems. As a result of not receiving those changes, DLA purchased items no longer needed. In 1988, DLA identified the need for a system to monitor changes that were made during weapon system development. Their solution was development of the Data, Review, Analysis, Monitoring Aid, which would assist in supporting and determining supply requirements. The project would allow DLA to better forecast requirements during the process when decisions are made on changes to weapon systems.

Proof of Concept of the Project. In 1989, DLA tasked the Information Sciences Institute, a research facility within the University of Southern California, to develop a proof of concept. A proof of concept demonstrates that a concept will work and that a system can be built. In 1991, the Information Sciences Institute demonstrated the proof of concept which cost \$1.9 million to develop. The purpose of the demonstration was to provide DLA with a useful mechanism for accessing and using information contained in the Logistics Support Analysis Record data base for a specific new weapon system. The Information Sciences Institute developed its proof of concept using parts information for the Air Force C-17 cargo plane.

Subsequent to the 1991 demonstration there was a funding gap, and the project remained dormant for three years. The Information Sciences Institute proof of concept needed additional work before it could be fully functional with enhancements.

Prototype of the Project. In 1994, DLA awarded a \$1.8 million sole-source contract action to ManTech, to develop a prototype that would further enhance the Information Sciences Institute proof of concept. A prototype is supposed to be a user-friendly, fully developed final product that can be operated by multiple users. According to the contract, the enhancements were to include:

- o conversion of the proof of concept to a more user-friendly language,
- o merging the project with the Military Departments' provisioning systems, and
- o incorporating the project into the provisioning and cataloging system that the Joint Logistics Systems Center was developing.

ManTech delivered a prototype in February 1996; however, DLA's management decided to cancel the project in July 1996 because of its limited functionality and other higher priority requirements. DLA has reprogrammed project funds to expand the existing technology into the Weapon System Support Program also being developed by ManTech.

Discussion

The purpose of the project was to increase the efficiency of requirements forecasting, assist DLA and the Services with identifying and establishing the National Stock Numbers necessary to support weapon systems, provide access to the Logistics Support Analysis Record data base provided by contractors for each new weapon system, and to reduce inventory levels. Although initiatives were developed to enhance the proof of concept, the project did not achieve its full objectives. Discussion of the development of the project includes:

- o management oversight of the project,
- o achievement of project objectives,
- o competition of the contracts,
- o appropriate use of funds, and
- o potential duplication of information technology.

Since the project was cancelled, we believe that DLA's management took corrective action. Therefore, we are making no recommendations.

Project Management

We substantiated the DoD Hotline complaint that alleged DLA changed program managers, system requirements were developed by the contractor, and that the Military Departments were not involved with the development of the project.

Program Management. Program oversight was inadequate because of changing program managers. Throughout the project, DLA changed program managers four times. Program managers were responsible for managing, monitoring, reporting, and protecting the Government's interest. The frequent changes in program managers caused a duplication of contracting effort to go undetected, as shown by the lack of a significant difference between deliverables by the two contractors. The change in program managers also resulted in consistency problems in the project. For example, there were disagreements regarding system and functional requirements among program managers, the contracting officer representative, and DLA headquarters. In addition, after the initial program manager, the other program managers did not actively work with the Joint Logistics Systems Center in planning interface options with the standardized system they were developing.

System Requirements. ManTech developed the project requirements because DLA did not provide a definitive statement of work and functional requirements. As a result, ManTech developed the project requirements without a clear understanding of the functional capabilities DLA expected. Therefore, ManTech developed a prototype that did not have the functional capabilities, did not meet the project objectives, and did not work as DLA intended.

Service Participation. The Military Departments were not consistently and fully involved with the development of the project. In 1989, the Information Sciences Institute used the Air Force C-17 cargo plane as a sample system in developing the proof of concept. In 1994, ManTech used the Navy E-2C Hawkeye Aircraft as a sample system in developing their prototype. The prototype should have been able to interface with the Military Departments provisioning systems; however, the Army and Air Force elected not to be involved in the development of the ManTech prototype.

Project Objectives

DLA headquarters management should have observed earlier that the project objectives were not being met and made appropriate management adjustments to make the project successful. The objectives not met include:

- o electronic interface with the Military Departments provisioning systems,

- o integration with the provisioning and cataloging system, and
- o the project working as intended in the statement of work.

Merging with the Military Departments' Provisioning Systems. ManTech was unable to make the Data, Review, Analysis, Monitoring Aid electronically interface with the Military Departments provisioning systems. Eight months into the ManTech contract, DLA learned that the Services do not use the Logistics Support Analysis Record data base once a weapon system is deployed. The Services retrieve data from the Logistics Support Analysis Record, input the data into their own unique data base, and do not subsequently update the Logistics Support Analysis Record data base. With adequate project oversight, DLA should have identified this problem earlier in the project and reevaluated the project objectives. Without interfacing capabilities, DLA will still be unable to accurately forecast weapon system requirements. Without accurate forecasting the purpose of the project -- reduced inventory levels -- cannot be achieved.

Integrating with the Provisioning and Cataloging System. ManTech was unable to integrate or interface the Data, Review, Analysis, Monitoring Aid with the provisioning and cataloging system because the timelines for the completion of the two projects were vastly different. Although ManTech was committed to keeping the projects compatible, they currently are not compatible and would require substantial work before they could be interfaced.

Working as Intended. The prototype did not work as intended and neither version of the Data, Review, Analysis, Monitoring Aid is being used by DLA. By definition, a proof of concept need only demonstrate that a concept will work and that a system can be built. In that regard, the Information Sciences Institute proof of concept satisfied the intent of DLA. However, the Information Sciences Institute proof of concept needed additional work before the proof of concept could be considered fully functional with enhancements. The Information Sciences Institute proof of concept was restricted in its ability to expand, did not have continuity, and was written in a language that was not user friendly or supportable by the users.

The ManTech prototype offered a more user-friendly computer language, but had fewer features than the Information Sciences Institute proof of concept. The Information Sciences Institute proof of concept validated the Supply Support Request, recognized design change notices, and provided pop-up windows that walked the analyst through the steps required to make forecasting decisions. Forecasting decisions would be based on the latest information available from weapon systems contractors for parts needed to meet the requirements of the Services. The ManTech prototype validated requests and recognized changes, but did not have pop-up window capabilities.

In July 1996, DLA management briefed the Director of DLA that the project should be discontinued because of its limited functionality and low priority in comparison to other DLA programs. Specifically, the project did not meet its project objectives and could not interface with other provisioning systems. As a result, the project would not reduce inventory levels.

Contract Competition

We substantiated the allegation that the contract had not been competed. ManTech was awarded a contract action against an existing contract at another Government agency to develop the project on a sole-source basis. Although the ManTech contracting action was awarded by another Government agency, DLA still had a responsibility to ensure that contract competition requirements were met.

Contract Competition. DLA did not compete the contract with ManTech. DLA and the other Government agency selected an acquisition strategy to solicit ManTech on a sole-source basis. Although the ManTech contracting action was awarded by another Government agency, DLA was responsible for ensuring that contract competition requirements were met. DLA prepared the sole-source justification indicating that ManTech was the only company with the technical experience and expertise to develop the prototype by September 1995. According to the sole-source justification, September 1995 was the target date established for implementation of the Materiel Management System within DoD. DLA could not provide adequate documentation to demonstrate that this date was set as the implementation for the Materiel Management System.

Procurement Regulations on Competition. The Competition in Contracting Act describes two instances that allow an agency to waive competitive procedures. Both were cited in the sole-source justification for using ManTech to develop the prototype. Federal Acquisition Regulation Subpart 6.302-1 allows an agency to waive competition when "only one responsible source and no other supplies or services will satisfy agency requirements." Federal Acquisition Regulations Subpart 6.302-2 states competition is not required when "an unusual and compelling urgency precludes full and open competition; and delay in award of a contract would result in serious injury, financial or other, to the government."

Satisfaction of Competition Exceptions. The circumstances for considering ManTech the only responsible source were not adequate to satisfy Federal Acquisition Regulation Subpart 6.302-1. Also, the implementation date of the Materiel Management System did not represent an unusual and compelling urgency as defined in Federal Acquisition Regulation Subpart 6.302-2. In addition, the competition advocate at the other Government agency did not agree with the decision to award a contract action for DLA against the contract

with ManTech. The competition advocate did not agree because the requirement for the project did not support the mission of the other Government agency, and because DLA had a contracting office capable of awarding a contract. Furthermore, the competition advocate felt that the action gave the appearance of attempting to circumvent the Competition in Contracting Act.

Appropriate Use of Funds

We did not substantiate the allegation that funds were improperly used. Improper use of funds was not found on the contracts with the Information Sciences Institute on which \$1.9 million was budgeted and expended. In fiscal year 1994, Congress appropriated \$2 million in research and development funds to DLA for the Continuous Acquisition Life-Cycle Support. Of the \$2 million, ManTech was awarded \$1.8 million to enhance the proof of concept. The remaining \$200,000 was used for travel and equipment purchases. DLA has reprogrammed fiscal year 1996 project funds to expand the technology into the Weapon System Support Program.

Potential Duplication of Technology

We did not substantiate the Hotline allegation that the project duplicates current or future technology efforts. The provisioning and cataloging system as currently developed has two functions similar to the functions of the project: the ability to receive provisioning data and to update provisioning data from the Services. The functionality of the project focused on the capability to flag changes in provisioning data, calculate the effects of changes in provisioning data on procurement actions, and recommend adjustments to procurement actions based on changes in provisioning data. According to the Joint Logistics Systems Center, the provisioning and cataloging system does not flag, calculate, or recommend changes because these tasks only benefit DLA.

Management Comments

We provided a draft of this report to you on October 16, 1996. Because this report contains no findings or recommendations, written comments were not required, and none were received. Therefore, we are publishing this memorandum report in final form.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Ms. Kimberley A. Caprio, Audit Program Director, at (703) 604-9210 (DSN 664-9210) or Ms. Carolyn R. Davis at (703) 604-9217 (DSN 664-9217). Enclosure 3 lists the planned distribution of this report. The audit team members are listed inside the back cover.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

Summary of Prior Audits

The Office of the Inspector General, DoD, issued two reports on inventory control of spare and repair parts and requirements forecasts on Supply Support Requests.

Inspector General, DoD, Report No. 95-057, "Spare and Repair Parts Affected by Design and Engineering Changes," December 16, 1994. The report states that the Military Departments and DLA inventory control points did not use current and accurate information about weapon system and equipment modification programs in their supply support planning. The report recommended that guidance be revised to improve the identification of items affected by modifications to weapon systems. The Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management) provided information on the development of the DoD Materiel Management System. The Army agreed to remind program managers of their management responsibility to oversee the accurate transfer of data on weapon system changes to DLA and will continue to use the Supply Support Request process. The Assistant Secretary of the Navy (Research, Development, and Acquisition) agreed to improve the identification of items affected by modifications, to improve coordination between weapon system program managers and inventory control points, and to revise guidance for supervisory oversight of item manager decisions. The Air Force Deputy Chief of Staff (Logistics) agreed to revise the Air Force Modification Description Guide on making changes to Supply Support Requests. The Director, DLA agreed to issue supplemental guidance for oversight of decisions made by item managers when the Military Departments implement the audit recommendations for providing information on modification programs to DLA.

Inspector General, DoD, Report No. 93-175, "Follow-up Audit of Requirements Forecasts on Supply Support Requests," September 30, 1993. The report states that the recommendations from the prior audit in 1987 were not effectively implemented and the Supply Support Request program implemented by the Military Departments and DLA has not improved to any notable extent since the prior audit in 1987. The report recommended that the Military Departments discontinue the submission of Supply Support Requests and directed DLA to discontinue accepting, processing and recording Supply Support Requests. The Deputy Under Secretary of Defense (Logistics) concurred with the finding, but nonconcurred with the recommendation and offered acceptable alternatives. Management proposed to adopt the Army's Supply Support Request process; develop a tracking system to monitor Supply Support Requests; continue validation of Supply Support Requests prior to procurements over \$5,000; and include reviews, analysis, and monitoring capabilities in the DoD Materiel Management System being developed by the Joint Logistics Systems Center.

Enclosure 1

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